TSA | TSEGAMLAK SOLOMON & ASSOCIATES

MONTHLY LEGAL UPDATE

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Ethiopian Legal Intelligence

Keeping you informed. Keeping you ahead.

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7	**Draft Insurance Business Proclamation** A dedicated insurance regulator, resolution tools and a wider product range

EXECUTIVE SUMMARY: IF YOU READ NOTHING ELSE, READ THIS

ACTION NOW	Civil society organisations receiving foreign funds should route every receipt and onward transfer through their designated bank account and keep transaction-level records ready for inspection, as ACSO has moved to continuous, enforcement-led supervision. Employers should update disciplinary procedures for the Cassation Bench ruling that five consecutive days of unjustified absence permit termination without prior written warning.
MONITOR	The draft Insurance Business Proclamation, which would move insurance supervision from the National Bank of Ethiopia to a new Ethiopian Insurance Regulatory Authority, and the draft Aviation Security amendment, which would centralise aviation security under NISS. Watch also how the Ministry of Finance administers the Free Trade Zone exemption, which has no stated duration or performance conditions.
OPPORTUNITY	Importers operating in Free Trade Zones may obtain a full income tax exemption on income from importing goods and distributing them in the domestic market, compared with the 15 percent rate that otherwise applies to Special Economic Zone enterprises. Groups may wish to reassess whether to route import and distribution activity through FTZ entities.
NOTE	Criminal Procedure and Evidence Proclamation No. 1410/2026 replaces the 1961 Code. Plea bargaining with safeguards, a reclassification of offences by maximum penalty and a one-month limit on preserving digital data will affect investigations, corporate criminal exposure and defence strategy.

COMPLIANCE DEADLINE CALENDAR

Within 3 working days of patient consent	The treating physician submits the complete medical documentation to the Medical Board (Directive No. 1128/2026).
Within 10 working days of a complete file	The Medical Board decides on the referral request.
Six months	Validity of the Ministry of Health travel authorisation certificate. Renewal requires an updated Medical Board certificate, a justified explanation for the delay and proof that the allocated foreign currency has not been used.
Annually, at least one month before expiry	Referral agents apply to renew their certificate of competence.
Quarterly	Referral agents submit performance reports to the Ministry of Health.
One month	Maximum period for preserving digital data for an investigation (Proclamation No. 1410/2026).
Ongoing	CSOs keep records of the source, transfer path and end use of each foreign-funded transaction, ready for ACSO desk reviews and on-site inspections.
From late April 2026	Public consultation on the draft Insurance Business Proclamation published by the National Bank of Ethiopia.

1 Ministry of Finance Circular: Income Tax Exemption for Free Trade Zone Importers

Ministry of Finance | A targeted departure from Investment Incentive Regulation No. 586/2026

Following the enactment of Investment Incentive Regulation No. 586/2026, Ethiopia moved to a performance-based, sector-focused investment incentive regime, replacing the broader and often fragmented incentives that preceded it. Under the Regulation, enterprises operating in Special Economic Zones (SEZs) generally pay a reduced income tax rate of 15 percent, while SEZ developers benefit from a preferential 5 percent rate for a defined period. Full income tax exemption is not part of this standardised structure.

Against this background, the Ministry of Finance has issued a Circular granting a full income tax exemption to certain investors operating in Free Trade Zones (FTZs), a significant exception to the core design of the 2026 Regulation.

Who Benefits

The Circular applies to investors operating in Free Trade Zones, a sub-category of SEZs under Special Economic Zone Proclamation No. 1322/2024. FTZs are designated areas where goods may be imported, stored, processed or re-exported with customs duties and taxes suspended. Under the incentive regulation, FTZ operators benefit mainly from customs incentives and the reduced income tax rate for SEZ enterprises. The Circular materially changes that position.

Nature of the Incentive

The Circular grants a full income tax exemption on income from import and domestic distribution activities conducted within FTZs, that is, income generated from imported goods that are then sold in the domestic economy. It sets no time limit or sunset clause, which distinguishes it from the time-bound, performance-based incentives under the Investment Incentive Regulation.

Eligibility Conditions

Two conditions must be met. The income must arise from import investment activity conducted within an FTZ, and it must be generated directly from the importation and distribution of goods. By expressly covering import and distribution, the Circular extends the incentive framework beyond its traditional focus on production and export-oriented investment.

Policy Rationale

The measure appears to be driven by immediate economic needs, in particular a consistent supply of industrial inputs and essential goods. By granting tax relief to FTZ-based importers, it recognises their role in supporting domestic manufacturing and stabilising supply chains. It also signals a recalibration of investment policy: earlier frameworks emphasised export-led industrialisation, while the Circular acknowledges the importance of import logistics and distribution efficiency to the domestic economy, treating FTZ operators as part of internal market stability rather than only as facilitators of external trade.

Legal and Regulatory Tensions

- **Departure from the incentive framework.** The exemption contradicts the design of the Investment Incentive Regulation, which deliberately moved away from blanket tax holidays towards performance-based incentives.
- **No time limit.** Unlike standard incentives under the Regulation, the Circular sets no duration, creating uncertainty about fiscal exposure and policy consistency.
- **Unclear conditions.** The Regulation ties incentives to measurable performance and continuing compliance. The Circular is silent on monitoring, reporting or revocation.

- **Centralisation concerns.** The amended income tax framework seeks to centralise and standardise tax incentives. A sector-specific exemption granted by ministerial circular risks fragmenting that approach and reintroducing discretionary practice.
- **Market distortion.** A full exemption for import and distribution, while other sectors pay reduced but positive rates, may create uneven competitive conditions, particularly for domestic producers.

FTZ Operators	Immediate tax efficiency gains, particularly for high-volume importers serving the domestic market. Structuring operations within an FTZ may now offer a material tax advantage.
Non-FTZ Businesses	A potential competitive disadvantage, especially for businesses outside designated zones and manufacturers subject to standard rates.
Group Structuring	Investors may reassess supply chain configurations to route import and distribution activity through FTZ entities.
Compliance	Given the lack of clarity, proceed cautiously: keep robust documentation to substantiate eligibility and prepare for possible retrospective scrutiny.

TSA VIEW

The Circular introduces a targeted but consequential departure from the newly established incentive framework. It addresses immediate priorities, particularly supply chain stability, at the cost of coherence within the tax incentive regime. The absence of duration limits, performance conditions and integration with the wider framework raises legitimate concerns about consistency, enforceability and long-term direction. Its impact will depend less on the generosity of the incentive than on how it is administered, monitored and eventually harmonised with the overall legal framework.

2 ACSO Requires Strict Compliance on Foreign Funding

Authority for Civil Society Organisations | Under Civil Society Organisations Proclamation No. 1113/2019

The Authority for Civil Society Organisations (ACSO) has introduced a reinforced compliance framework for the receipt and use of foreign funds by civil society organisations (CSOs). Anchored in Civil Society Organisations Proclamation No. 1113/2019, the measure marks a shift from periodic oversight to continuous, enforcement-led supervision of the sector's finances. It is part of a wider trend of aligning non-profit financial flows with national financial integrity systems, particularly transparency, traceability and anti-money laundering controls.

Mandatory Banking Channels and Traceability

All contributions from foreign governments, international organisations or overseas donors must be transferred exclusively through the formal banking system and deposited directly into the organisation's designated bank account. The requirement extends beyond receipt: any onward transfer, including disbursements to partner or beneficiary organisations, must also go through regulated banking channels. This eliminates informal or parallel arrangements and keeps every transaction traceable within the formal financial system.

CSOs must keep comprehensive records for each transaction, including evidence of source, transfer path and end use, available for inspection during desk-based reviews or on-site investigations. ACSO has made clear that receiving or using funds outside the formal banking system is a serious regulatory breach.

Supervisory Approach and Enforcement

ACSO is expected to intensify monitoring through desk reviews, field inspections and targeted investigations. This reflects a move to risk-based supervision in which financial flows, and not only programme activities, are a central focus, so that CSOs operate within their registered mandates and apply their resources in line with their objectives and national standards. Organisations that fail to meet the banking, documentation and traceability requirements face administrative sanctions and potential legal liability, which makes financial compliance a core governance function rather than a peripheral administrative task.

Financial Operations	Route all foreign transactions through formal banking channels and stop relying on informal mechanisms.
Internal Controls	Strengthen financial record-keeping, particularly donor tracking and records of how funds are used.
Boards and Management	Exercise closer supervision of financial flows to manage regulatory risk.
Audit Preparedness	Expect more frequent and deeper regulatory reviews, and keep audit-ready documentation at all times.

TSA VIEW

The underlying legal authority is not new, but its enforcement is now more structured, intrusive and aligned with national financial transparency objectives. For CSOs, compliance is no longer procedural but operational. Organisations that do not adapt their financial systems risk regulatory sanctions as well as reputational and operational disruption.

3 Abroad Medical Service Referral System Implementation Directive No. 1128/2026

Ministry of Health | Issued under Proclamation No. 1362/2025

The Ministry of Health has issued the Abroad Medical Service Referral System Implementation Directive No. 1128/2026 under the Health Service Administration and Regulation Proclamation No. 1362/2025. Article 11(3) of the Proclamation provided a general legal basis for medical referrals abroad but lacked operational detail. The Directive fills that gap with a structured, centralised referral system covering everyone involved in arranging treatment abroad. Its stated aims are to ensure that Ethiopian patients receive safe, quality and dignified care abroad, and to reduce the avoidable delays and inefficiencies that have marked the process.

Conditions for Referral Abroad

Referral is authorised where the required treatment is demonstrably unavailable in Ethiopia, because of a lack of specialised diagnostic infrastructure or sub-specialist expertise. It may also be approved where domestic waiting times risk irreversible harm, or where a patient needs continuation or follow-up of treatment started abroad. Patients must also show a minimum deposit of ETB 500,000, or ETB 1,000,000 for transplantation, which introduces a formal financial threshold into the process.

The treating physician acts as gatekeeper: confirming that treatment is unavailable locally, informing the patient of expected outcomes, and submitting complete medical documentation to the Medical Board within three working days of the patient's consent.

Medical Boards and Referral Certification

Medical Boards are formalised as the technical bodies that evaluate referral requests. Hospital medical directors establish them, with three to five professionals selected for their expertise, experience and ethical standing. Members must disclose conflicts of interest and may be removed for ethical breaches, incapacity or criminal conduct.

Only designated institutions (comprehensive specialised hospitals, higher-tier facilities, or general hospitals approved by regional health authorities) may issue referral certificates. Medical Boards must decide within ten working days of receiving a complete case file, which introduces a defined timeline into what has been an open-ended process.

Ministry of Health Approval

The Ministry of Health retains final authority. It verifies Medical Board decisions and issues the official travel authorisation certificate, which is valid for six months. Renewal after expiry requires an updated Medical Board certificate, a justified explanation for the delay and proof that the allocated foreign currency has not been used. One attendant is normally permitted, with a second where medically necessary, and patients under 18 must be accompanied by a parent or legal guardian.

Licensing and Obligations of Referral Agents

Only qualified health professionals may act as agents arranging medical referrals abroad, and they must hold a certificate of competence from the Ministry of Health, renewed annually. Renewal applications must be submitted at least one month before expiry, and the Ministry must be notified of any change in service scope or contractual arrangements. Agents must support patients throughout treatment, submit quarterly performance reports and are liable for professional negligence or service failures, which brings a previously under-regulated market within a clear accountability framework.

Suspension and Revocation

The Ministry may suspend or revoke an agent's certificate for misconduct, including providing misleading information, failing to support patients adequately or operating beyond the authorised scope. Suspension ranges from six months to two years depending on severity. After revocation, an agent is generally barred from reapplying for one year, except where the revocation results from termination of a contract or disengagement by the foreign health care provider.

Hospitals and Medical Boards	Designated institutions should constitute Medical Boards of three to five qualified professionals, with conflict-of-interest disclosure, and organise to meet the ten-working-day decision period.
Referral Agents	Obtain the Ministry's certificate of competence, apply for renewal at least one month before expiry, file quarterly performance reports and review contractual exposure for negligence and service failures.
Patients and Families	Plan for the minimum deposit (ETB 500,000, or ETB 1,000,000 for transplantation) and the six-month validity of the travel authorisation.

TSA VIEW

The Directive brings structure and fixed timelines to a process that has been largely open-ended, and its rules on agents place a previously under-regulated intermediary market under licensing, reporting and liability obligations. The emphasis is on professional accountability and patient protection, and agents and hospitals should expect enforcement to follow that emphasis.

4 Criminal Procedure and Evidence Proclamation No. 1410/2026

Replaces the Criminal Procedure Code of 1961

Ethiopia has enacted Criminal Procedure and Evidence Proclamation No. 1410/2026, a decisive shift in its criminal justice framework. The Proclamation replaces the 1961 Criminal Procedure Code and concludes a reform process of more than fifteen years. The reform is not incremental: it introduces a unified procedural and evidentiary system, modernises investigation and trial, and aligns criminal proceedings with the guarantees of the FDRE Constitution.

Structural Changes

The Proclamation codifies a comprehensive law of evidence within the procedural framework. Consolidating the rules of evidence in a single statute addresses long-standing inconsistencies and gaps in practice, and should improve predictability in adjudication and reduce procedural disputes at trial. Investigative and trial processes are expressly aligned with fundamental rights protections, and the framework adopts modern investigative tools and international practice, particularly for gathering evidence and handling digital data.

Key Changes

- **Right to be treated as not guilty.** The traditional presumption of innocence becomes a "right to be treated as not guilty", a stronger basis for treating bail as a right rather than a discretionary privilege.
- **Jurisdiction.** Oromia Regional State courts have jurisdiction over crimes committed in Addis Ababa where they involve the region's institutions, budgets or employees acting in an official capacity. This identity-based approach departs from the territorial principle that a crime is tried where it occurred, and is intended to protect the region's constitutional special interest.
- **Plea bargaining with safeguards.** The Proclamation introduces plea bargaining with mandatory protections against coerced confessions. Judges must interview defendants privately to confirm that a plea agreement is voluntary and informed, and prosecutors must consult victims so that compensation and restorative elements are included in the settlement.
- **Ministry of Justice as central authority.** References to the General Public Prosecutor are replaced by the Ministry of Justice as the principal prosecutorial and coordinating authority, responsible for prosecution policy, intergovernmental coordination and international criminal cooperation.
- **Withdrawal of charges.** The prosecution's previously broad power to withdraw charges in the "public interest" is now governed by specific directives and mandatory judicial oversight, making such decisions transparent and subject to court scrutiny.
- **Classification of offences.** Offences are classified by maximum statutory penalty: crimes punishable by more than 15 years' imprisonment are serious crimes, those punishable by 5 to 15 years' rigorous imprisonment are medium crimes, and those with a maximum of 5 years or less are minor crimes.
- **Digital evidence.** Digital data may be preserved for a limited period of one month, balancing investigative needs against privacy and preventing the indefinite retention of personal information.

Judiciary	Greater reliance on codified evidence rules will standardise adjudication but requires adaptation to a more structured evidentiary regime.
Prosecution	Judicial oversight, victim participation and centralised authority will reshape prosecutorial strategy and accountability.
Defence Counsel	Stronger rights protection and procedural clarity open new grounds for challenging evidence and safeguarding due process.
Law Enforcement	Limits on data retention and procedural safeguards require changes in investigative practice, particularly in handling digital evidence.

TSA VIEW	Proclamation No. 1410/2026 is one of the most consequential reforms in Ethiopia's recent legal history, replacing an outdated framework with a modern, rights-based and more predictable system. The transition will not be frictionless: its success depends on institutional capacity (training, judicial consistency and enforcement discipline) and on how quickly institutions absorb the new requirements.

5 Cassation Bench: Termination for Unjustified Absence

Federal Supreme Court Cassation Bench (seven judges) | Article 27(1)(b), Labour Proclamation No. 1156/2019

The Federal Supreme Court Cassation Bench, sitting with seven judges, has resolved whether prior written warning is required before terminating an employee who has been absent without good cause for five or more consecutive working days. Interpreting Article 27(1)(b) of Proclamation No. 1156/2019, the Bench held that no warning is required for continuous, consecutive absence. The statutory requirement of prior written warning applies only to cumulative absence totalling five days within a six-month period.

The Bench relied on legislative intent: the provision was meant to close gaps in earlier laws that had weakened workplace discipline, and requiring a warning during continuous absence would be impractical and inconsistent with its purpose. It reaffirmed its earlier decisions (File Nos. 199956 and 229194) and expressly overruled the conflicting precedent in File No. 249795, which had extended the warning requirement to consecutive absence.

Resolution of Conflicting Precedents

Cassation decisions were previously divided. One line permitted termination without warning after five consecutive days of absence, while another required prior warning even then, leaving workplace disciplinary practice uncertain. The ruling sets a clear, binding standard: no prior written warning is required for termination based on five consecutive days of unauthorised absence.

A Shift Towards Workplace Discipline

The decision reinforces a stricter reading of employers' disciplinary powers, prioritising workplace discipline and operational continuity. By limiting the procedural preconditions for termination, the Court closes room for exploiting earlier ambiguities in the law.

Employers	The ruling strengthens the legal basis for termination after consecutive unauthorised absence and reduces procedural burdens. Update disciplinary policies and absence records accordingly.
Employees	The threshold for justifying absence rises, and reliance on procedural safeguards such as a prior warning is limited.
Courts	The judgment sets a uniform interpretive standard, reducing inconsistency in future labour disputes.

TSA VIEW	The ruling recalibrates labour law towards enforcing discipline, potentially at the expense of flexibility in assessing individual circumstances such as force majeure or security constraints. Employers should still document the absence carefully and confirm that it was continuous and without good cause before relying on the ruling.

6 Draft Amendment to the Aviation Security Proclamation

Public consultation draft | Amends Aviation Security Proclamation No. 432/1997 (E.C.)

Ethiopia has released a draft amendment to its Aviation Security Proclamation for public consultation, a targeted overhaul of the aviation security framework. The reform aims to align domestic law with evolving International Civil Aviation Organization (ICAO) standards, particularly Annex 17 to the Chicago Convention, and to respond to increasingly complex threats to civil aviation. Ethiopia has historically maintained strong compliance with international aviation security requirements; the amendment moves towards more centralised authority, technology-enabled oversight and wider institutional coordination.

Lead Security Authority

The bodies given responsibilities under the existing Proclamation have since been renamed or reorganised. The former Security, Immigration and Refugee Affairs Authority has become the National Intelligence and Security Service (NISS), which would serve as the central authority for implementing and overseeing all aviation security measures. The former Ethiopian Airports Enterprise and Ethiopian Airlines Enterprise have been consolidated into the Ethiopian Airlines Group, streamlining operational security management.

Expanded Scope

Revised definitions align the scope with international benchmarks. “Dangerous goods” now covers any article or substance posing a risk to health, property or the environment, not only to passengers and aircraft. Screening procedures expressly include technical and other modern means of detecting prohibited items, and security restricted areas are refined to identify priority risk areas requiring specialised controls in addition to standard access restrictions.

Expanded Powers of NISS

NISS would be formally designated as the primary institution for overseeing and executing aviation security, in line with ICAO standards. It would evaluate and approve the security programmes of airline operators and air traffic service providers, develop a National Aviation Security Programme, and establish a Quality Control Unit with authority to inspect all aviation facilities without restriction and enforce corrective measures.

The draft also addresses emerging risks, authorising NISS to monitor and act against the unauthorised movement of man-portable air-defence systems (MANPADS) and drones that may threaten aircraft or airports. NISS would oversee the deployment of in-flight security officers by operators flying into Ethiopia, on the basis of reciprocal agreements, and lead the coordination of passenger registration and pre-flight data collection to prevent terrorism and organised crime through information exchange with international counterparts.

Additional Stakeholders

The Information Network Security Administration (INSA), the Ethiopian Artificial Intelligence Institute, the Immigration and Citizenship Service and the Customs Commission would be recognised as key stakeholders with specific mandates and mandatory membership of security committees at national and airport level, so that cybersecurity and artificial intelligence support a more robust defence system and training programmes meet international standards.

Transit Screening and Fees

Transit passengers and their baggage could be exempted from secondary screening where security measures at their point of origin are verified as reliable, improving airport efficiency and the passenger experience. A dedicated fee structure, following ICAO and IATA recommendations, would allow NISS to collect fees from airline operators and passengers to fund advanced technology and maintain a high standard of aviation security.

Airlines and Operators	Prepare for NISS approval of security programmes, wider data-sharing obligations and the new fee structure, which will add to operational and regulatory requirements.
Airports and Service Providers	Expect unrestricted inspections by the NISS Quality Control Unit and closer coordination with INSA, customs and immigration through the security committees.

TSA VIEW

If enacted, the amendment will substantially modernise Ethiopia's aviation security framework through institutional consolidation, wider regulatory scope and technological integration, in clear alignment with ICAO standards. Centralising authority under NISS should improve coordination and consistency, but it concentrates significant power in a security institution, which raises questions of oversight and institutional balance. The transit screening exemption also makes domestic security assurance partly dependent on the reliability of foreign regimes. Effectiveness will depend on NISS's capacity to deliver its expanded mandate in a coordinated, multi-agency environment.

7 Draft Insurance Business Proclamation: Structural Reform of the Insurance Sector

Published by the National Bank of Ethiopia for consultation, late April 2026 | Would replace Proclamation No. 746/2012

The Draft Insurance Business Proclamation, published by the National Bank of Ethiopia for public consultation in late April 2026, would restructure Ethiopia's insurance regulatory framework. It is intended to replace Proclamation No. 746/2012 (as amended), moving the sector from a largely compliance-driven supervisory model to a risk-based, market-enabling framework. It aligns with wider financial-sector modernisation by introducing institutional specialisation, expanding permissible products and embedding tools for crisis management, innovation and inclusion.

A Dedicated Insurance Regulator

The draft establishes the Ethiopian Insurance Regulatory Authority as an autonomous body with legal personality, accountable to the Ministry of Finance. Its mandate covers licensing, supervision, enforcement and policy development. This separates insurance supervision from central banking; such separation usually supports deeper sectoral oversight but requires strong coordination to avoid regulatory fragmentation.

Supervisory and Regulatory Powers

- Directive-making and supervisory oversight of insurers and intermediaries
- Enforcement against unlicensed activity
- Macro-prudential monitoring of systemic risk
- A regulatory sandbox for innovative products
- Representation in international insurance frameworks

Macro-prudential supervision is particularly notable: it recognises insurance as a potential source of systemic risk rather than a purely contractual risk-transfer mechanism.

Resolution and Failure Management

For the first time, the law would provide structured resolution tools: bridge insurer mechanisms to maintain critical functions, official administration of distressed insurers, mandatory resolution planning and defined liquidation procedures. This aligns Ethiopia with regulatory practice since the 2008 global financial crisis,

when orderly resolution frameworks became central to financial stability. The absence of such tools under the 2012 regime left the system exposed to disorderly failures.

Inclusion, Innovation and Products

The draft formally recognises inclusive insurance for low-income and underserved populations, in effect codifying microinsurance and community-based schemes. The regulatory sandbox creates a controlled environment for testing new models, although its effectiveness will depend on clear licensing pathways and supervisory capacity. The product scope expands to annuities and index-based and investment-linked insurance, a shift towards long-term savings and risk pooling rather than purely short-term cover.

Implementation Risks

- **Institutional transition.** Moving supervision from the National Bank of Ethiopia to a new authority may create short-term supervisory gaps and uncertainty.
- **Capacity.** Supervising complex products, foreign entrants and systemic risk requires technical expertise that cannot be assumed at inception.
- **Market disruption.** Liberalisation of foreign participation may outpace the preparedness of domestic insurers.
- **Compliance burden.** Stronger governance and reporting requirements will weigh most on smaller firms and may accelerate consolidation.

Insurers	Prepare for risk-based supervision, resolution planning and stronger governance and reporting, and engage in the consultation on transition arrangements.
New Products and Entrants	Annuity, index-based and investment-linked products, inclusive insurance and the sandbox open new lines of business, subject to the licensing pathways the new Authority sets.

TSA VIEW

The draft signals a transition from a contained, bank-supervised insurance market to a specialised, risk-aware and more open sector, broadly consistent with international standards on resolution, governance and market conduct. The legislative design is, however, ahead of current institutional capacity. The real test will be execution: whether the new Authority can exercise its mandate with sufficient independence, technical depth and supervisory discipline. Without that, the reform risks a regulatory environment that is formally modern but functionally uneven.

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